CRS INSIGHT

Amazon's HQ2 and Economic Development: Perspectives and Policy Options

March 8, 2019 (IN11070)

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In February 2019, facing political and public opposition, Amazon canceled the New York portion of its planned second headquarters (HQ2). Originally announced in November 2018, HQ2 was going to be split between the Northern Virginia suburbs of Washington, DC, and Long Island City, NY, which Amazon claimed would each gain as many as 25,000 direct jobs as a result. According to its cancelation announcement, Amazon plans to proceed with its Virginia site, along with a smaller third site in Nashville also announced last November that Amazon suggested would generate 5,000 additional jobs. Amazon's announcement followed an approximately year-long process in which over 238 localities competed to attract HQ2.

Overall, reactions to Amazon's initial announcement were mixed, reflecting contrasting views of economic development prioritizing economic growth on the one hand, and social welfare on the other. While proponents of the Virginia and New York bids celebrated the expected economic and job growth, detractors claimed the value of robust economic incentives—nearly $3 billion in New York, about $750 million in Virginia, and hundreds of millions in additional indirect incentives—would be better used to address poverty and economic inequality. Amazon's selections also reinforced concerns over "mega-regions" like New York City and Washington, DC, attracting outsized economic gains while other regions plateaued or declined. The debate over HQ2 has led to questions over the justifiability of economic incentives for large corporations like Amazon, how those incentives play out in competition between states and localities, and the role of economic development policies in general.

Growth- and social welfare-oriented economic development strategies provide different policy options and potential outcomes. While a growth-oriented view tends to focus on top-line macroeconomic performance, a social welfare approach often emphasizes ameliorating inequality and poverty. However, these goals are not necessarily incompatible and may be complementary. Reconciling these priorities pose challenges and opportunities to Congress. With numerous congressioal statements about HQ2 and its perceived economic development viability, this Insight explores how HQ2 reflects certain elements of both approaches to economic development, and provides information on its broader implications for federal approaches to economic development policy.

The Growth Perspective

Economic growth, as reflected in changes to gross domestic product (GDP), is the conventional measure of national economic health and frames most associated policy considerations. As a result, economic growth and related indicators (like unemployment, revenues, and household income) typically dominate economic development thinking as a whole and support an approach measured by outputs such as tallies of jobs created, dollars invested, business expansions, etc. This approach to economic development is supported by some economic models of "agglomeration," in which sufficiently large clusters of economic activity can promote additional economic activity. Those aligned with the growth perspective might argue that the HQ2 competition should be considered in the context of these growth-agglomeration concepts. For Amazon and its boosters, large public subsidies for HQ2 were justifiable due to the potential increases in jobs, tax revenue, and additional economic activity generated by proximity to HQ2 and its workforce.

The Social Welfare Perspective

Social welfare perspectives of economic development focus on social and community outcomes tied to perceived states of equity and justice. While social welfare-oriented economic development may make use of economic empiricism as a tool, success is typically measured not in outputs but in more subjective assessments of quality of life and socioeconomic equality. In this way, social welfare critiques of HQ2 may be related to growing scrutiny around using economic growth as the primary measure of economic well-being. As a result, nominal economic gains are considered insufficient evidence of economic progress, and may even be seen as net negative if that growth undermines socioeconomic equity. And while agglomeration may drive economic growth, some of its effects—talent/labor migration, housing costs, and infrastructure demands—have been shown to exacerbate inequality. This contributes to arguments that HQ2's public subsidies not only bear opportunity costs for anti-poverty efforts, but may even exacerbate inequality.

Divergent but Not Opposing Perspectives

Despite these different viewpoints, economic growth and social welfare objectives are not necessarily contradictory. In many respects, they could be intertwined. Proceeds from economic growth can enable governments to undertake social welfare efforts, such as anti-poverty and workforce development initiatives. In addition, studies have shown that economic growth can be correlated with poverty reduction, though wealth inequality may weaken that association. However, if projects like HQ2 are seen as detracting from economic equality, the case for large public subsidies might become more difficult to justify.

Potential Policy Options for Congress

To bridge economic growth and social welfare perspectives, Congress may use its legislative authority over federal economic development programs to more directly coordinate economic development programming and outcomes. Selected options may include:

Increased oversight: Congress may develop oversight mechanisms over major economic development projects that use federal incentives, as HQ2 could (see CRS Insight IN11007).

Cooperation Incentives: Congress could create or modify incentives to encourage regional cooperation. Conversely, Congress may create additional disincentives against states and localities using public subsidies to compete, such as the provision in Section 13312 of the 2017 tax revision (P.L. 115-97) that made certain economic development incentives to corporations taxable.

Regional Vehicles for Economic Development: Congress may encourage greater collaboration at multi-state, regional levels. Cognizant of economic development's regional character, Congress already funds federal regional authorities (the Appalachian Regional Commission, the Delta Regional Authority, the Denali Commission, and the Northern Border Regional Commission) and has authorized several more. These and similar structures could be elevated as vehicles of first choice for economic development planning, collaboration, and even incentives.

More broadly, Congress may consider policies that seek to reconcile tensions between growth- and social welfare-oriented economic development models. In particular, mitigating the perceived negative effects of agglomeration while retaining its broader economic benefits, while systematically attending to places "left behind."